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STATE PASS USTR FOR SCRONIN/MSULLIVAN
STATE PASS EXIMBANK
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
NSC FOR FEARS
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D
USDOC FOR 3134/USFCS/OIO/WH/SHUPKA
TREASURY FOR OASIA, DAS LEE AND JHOEK
SOUTHCOM ALSO FOR POLAD
USAID/W FOR LAC/AA

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TAGS: [PGOV](#) [PINR](#) [PREL](#) [EINV](#) [ETRD](#) [SOCI](#) [ECON](#) [BR](#)
SUBJECT: WHA PDAS SHAPIRO'S MEETINGS IN SAO PAULO

REF: BRASILIA 1996

SENSITIVE BUT UNCLASSIFIED - PLEASE PROTECT ACCORDINGLY

SUMMARY

11. (SBU) During a September 18-21 visit to Sao Paulo to attend the WHA ELO Conference, WHA PDAS Charles Shapiro met with a series of experts on questions of foreign policy, international trade, and socio-economic issues. Private sector representatives painted a gloomy economic picture, noting the lack of investment needed to sustain a higher level of growth. Many interlocutors criticized President Lula's foreign policy as "ideological" rather than national interests-based. Another complaint was that the government doesn't consult with the private sector on trade issues, and the existing consultative mechanisms are inadequate. Representatives of FIESP made a strong argument for seeking resolution of Doha Round trade issues and outlined their lobbying efforts in support of continued GSP benefits for Brazil. Experts on public education outlined initiatives under way to improve Brazil's badly broken education system. Ambassador Shapiro was also briefed by a Sao Paulo state official on federal, state, and municipal cash transfer programs. END SUMMARY.

12. (SBU) Ambassador Shapiro used his meetings to elicit information and perspectives on whether Brazil was interested in moving towards a deeper relationship with the United States culminating over time in a strategic partnership; the extent to which Brazil as a country was truly interested in free trade; and the effectiveness of the government's anti-poverty programs. He met with former Ambassador to the United States Rubens Barbosa; several Amcham Board members; the foreign trade director of the Sao Paulo State Federation of Industries (FIESP); a businessman allied with Lula; and the state social development coordinator. He also lunched with a group of

experts on foreign policy and trade and another on social development. In all his meetings, the unfolding "dossier" political corruption scandal was a topic of lively discussion; most hoped it would increase the likelihood of a second round to the election, but most still believed that President Lula would ultimately win.

RUBENS BARBOSA - STRATEGIC RELATIONSHIP POSSIBLE, BUT NOT IN THE NEAR TERM

13. (SBU) Rubens Barbosa, former Ambassador to the United States (and Alckmin supporter), believes that there exists a solid framework for strengthening U.S.-Brazil relations and moving in the direction of a strategic relationship if the political will to do so is present, but he doubts it will happen if Lula is re-elected. Foreign policy, he said, is the area of the greatest difference between Lula and opposition candidate Geraldo Alckmin, because Lula has politicized the Foreign Ministry. Brazil's acquiescence to Venezuela's accession to Mercosul without its first fulfilling the necessary conditions is an example of GoB mismanagement. Nevertheless, Barbosa believes Lula is trying to moderate Hugo Chavez, although the results may not be visible now. While the U.S.-Brazil relationship has only "small problems," he continued, it could be much stronger. If Lula is re-elected, the private sector will put pressure on the government to reopen dialogue with the U.S. The USG should take the initiative to open up areas of cooperation, beginning with trade. Unfortunately, he said, the GoB doesn't consult with the private sector on trade negotiations, and the official fora for such consultations don't work well. Trade and investment form the focus of U.S.-Brazil relations, but U.S. investment in Brazil is down, leading to lower GDP growth rates. In order for the country to remain competitive and advance, it needs to grow by 5-7 percent per year, whereas the actual rate is closer to 3

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percent.

AMCHAM - NEED INVESTMENT TO GENERATE SUSTAINED GROWTH

14. (SBU) According to four members of the AmCham Board -- Joseph Tutundjian, Arthur Vasconcellos, Geraldo Barbosa, and Adhemar Altieri -- who breakfasted with Ambassador Shapiro on November 19, Brazil is the most modern country in the region and could act as a moderating influence on other countries such as Venezuela and Bolivia, but has not done so. The government is preoccupied with internal problems. Due to its debt situation and fiscal constraints, the government is unable to provide the needed investment, and business is reluctant to invest because of infrastructure problems, high interest rates, an overvalued currency, and a low rate of savings. Large companies like Gerdau Steel are unable to grow more in Brazil and are now investing in the U.S. and elsewhere. Without growth, Brazil will resemble Mexico, a large economy but retarded in growth, which aggravates underlying social tensions. Growth requires investment, and investment requires tax, social security, labor, and political reforms. Lula apparently recognizes the need for reform and has been talking about it in private with businessmen, but not talked much publicly. Four years from now, Brazil will have to find a capable leader to succeed Lula, because his Worker's Party (PT) has no apparent candidate.

FIESP - CONCERNED ABOUT GSP BENEFITS

15. (SBU) Roberto Gianetti de Fonseca of the Sao Paulo State Federation of Industries (FIESP), Brazil's most important and influential business organization, outlined the organization's activities in helping combat piracy and lobbying on behalf of private sector interests. He defended Brazil's position on agricultural subsidies in the Doha round. FIESP supports free trade, but its constituency, which includes agribusiness, fears that if meaningful movement on agriculture is deferred, the opportunity may be lost. He acknowledged that Brazil needs to amend its constitution and change its laws to remove protection from some sectors of the economy, but insisted that agriculture must be part of the equation. Prospects would be much better if Alckmin were elected President, but if Lula is re-elected, Gianetti believes Doha Round negotiations will collapse. He does not believe Lula wants to

undertake reforms. Like Ambassador Barbosa, he believes the GoB acted irresponsibly in allowing Venezuela into Mercosul. Gianetti listed two ideas that he thought would improve bilateral relations: working more closely on Doha Round issues, and cooperation on developing markets for ethanol. Gianetti was particularly concerned over what will happen if the U.S. does not renew Brazil's GSP benefits. FIESP representatives are meeting with key U.S. Congressmen to urge favorable treatment for Brazil. If Brazil loses GSP, U.S. companies won't benefit, he asserted, but rather China.

EXPERTS CRITICIZE "IDEOLOGICAL" FOREIGN POLICY

¶6. (SBU) Ambassador Shapiro attended a lunch hosted by the CG with former Foreign Minister Celso Lafer, private consultant Mario Marconini, Ricardo Lacerda of Citibank, and Economics Professor Roberto Macedo. They asserted that Lula is implementing a leftist foreign policy to compensate for his orthodox economic policies, though Lula himself is more conservative than some of his senior foreign policy officials like Marco Aurelio Garcia and Samuel Pinheiro Guimaraes. Celso Lafer complained that for the first time Itamaraty's influence had been diluted with Garcia supplanting the foreign minister as Lula's most influential foreign policy advisor. The group was especially critical of Lula's mismanagement of Mercosul and Venezuela's accession, and his handling of Bolivia. While they believed that Lula would likely win the election - though it might require a second round - they noted he will lack a majority in Congress and will have trouble governing and passing reform measures. Lula's government has benefited from favorable world

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economic conditions that won't last forever, and could face real problems over the next four years.

PRO-LULA BUSINESSMAN OFFERS A DIFFERENT VIEW

¶7. (U) Lawrence Pih, CEO of the large grain milling company Moinho Pacifico, director of "Businessmen for Lula," and a formerly close associate of Lula, offered a different perspective. He said that much of the corruption in Brazilian politics had begun in Fernando Henrique Cardoso's (FHC) presidency, and that Lula's government had been better than FHC's. With respect to the future, Pih acknowledged that Lula (who he assumes will be re-elected), will face a difficult situation in Congress, because his party won't have a majority. Lula's first priority will be to develop a solid base in Congress, and will then be able to address reforms, especially political reform. Education will also be a priority. Looking towards his legacy, Lula will want to make the economy grow faster and address social inequality, but he will have tough time with the opposition. Lula, he asserted, wants closer ties to the United States, but many of the people around him do not. He thinks Lula is also beginning to see Hugo Chavez and Evo Morales in a different light, but will wait until after the election to change his approach to them. Pih acknowledged that Lula has no heir apparent, and that for Sao Paulo mayor Jose Serra and Minas Gerais Governor Aécio Neves will compete for the PSDB nomination in 2010, and one of them will likely be elected president. He commented ironically that on economic issues, Serra may be more "leftist" (i.e., statist) than Lula.

BRIEFING ON CONDITIONAL CASH TRANSFER PROGRAMS

¶8. (U) PDAS Shapiro visited the Sao Paulo State Secretariat for Social Development and Assistance. There he met with a team led by Social Development Coordinator Maria Camila de Mendonca, who oversees all cash transfer programs operating in the state. Mendonca outlined an interlocking web of social protection programs operating at national, state, and local levels and aimed primarily at the poorest individuals and families, those who have low education levels and limited access to health care. The federal program, Bolsa Familia, grew out of the Bolsa Escola and three other programs developed during the administration of Fernando Henrique Cardoso. This program, which covered 6.7 million families in 2004, has grown to reach 11 million families. Beneficiaries are required to keep their children in school and ensure they get vaccinations and medical checkups. Low-income families are eligible to receive the equivalent of between USD 10 and 50 per month depending on

family size and number of children in school. The funds come from the federal government -- beneficiaries receive a card to withdraw money from the Caixa Economica Federal -- but the program is administered by the municipalities.

¶9. (U) Local secretariats for education and health are tasked with reporting on compliance with conditions. Mendonca said these reports are often delayed or unreliable; accordingly, it is difficult to provide effective enforcement. Furthermore, she said that to date there have been no reliable studies on the extent to which the transfer programs are effective on moving poor families out of poverty and into the formal economy. Each of the states has its own programs to complement Bolsa Familia, as do many municipalities. These vary considerably in coverage and quality. Bolsa Familia covers roughly 1.2 million families in Sao Paulo state. The state's program, Citizen Income, is designed like Bolsa Familia, with similar conditions, and covers 175,000 families and provides up to about USD 30 per month, paid out of state-owned Nossa Caixa. The state's youth action program assists young people between the ages of 15 and 24 who are out of school or at risk of dropping out. In addition to these, the city of Sao Paulo also has a program, Family Action, which currently covers some 30,000 families. Depending on circumstances, some families may benefit

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from more than one program.

PRIVATE SECTOR ENGAGED ON EDUCATION

¶10. (U) PDAS Shapiro, CG, and Poloffs lunched with several private sector and NGO leaders involved with education programs and other initiatives to combat poverty. Norman Gall of the Braudel Institute, Eduardo Bom Angelo of Brasilprev, and Luiz Norberto Paschoal of the Educac Foundation outlined the challenges facing education in Brazil. Too much attention, they said, is devoted to the university system and not enough to primary and secondary education. Ideally, five percent of GDP should go to primary and secondary education where intervention can make a difference, but the actual figure is much lower. Furthermore, most of the budget goes to building new facilities and paying salaries, and not enough to improving quality. Schools in Sao Paulo are overcrowded to the point that some have to operate in three shifts and on Saturdays. The result is that many poor students drop out or are unprepared for university, and the Brazilian private sector suffers from a lack of educated, well-qualified workers, which ultimately affects competitiveness.

¶11. (U) The business community has developed initiatives to improve the situation. Notably, on September 6, civil society, business, and government launched the Everyone for Education Commitment, with a broad range of corporate and civic sponsors and five objectives to be achieved by Brazil's bicentennial in 2022. In addition, the Senna Foundation implements initiatives that target children at risk of failing and helps them overcome difficulties and remain in school. The Braudel Institute runs reading circles for disadvantaged children. The AmCham's Institute for Quality Instruction (IQE) is working to ensure that teachers are better trained and prepared. In addition to these, the Consulate's PAS section has organized a project that funds exchanges of school principals, enabling them to share experiences and techniques.

¶12. (U) Despite these promising efforts, Paschoal noted that it is difficult to get the public interested in the debate over improving the education system. While candidates for public office discuss education in general terms, they have offered few concrete proposals. For this reason, federal, state and municipal governments tend to apply band-aids to the existing system rather than try to reconfigure it as is needed. Participants expressed hope that whoever is elected president would appoint a prominent business leader as Minister of Education. That said, they believed that private sector involvement in education is greater than elsewhere in the region.

COMMENT: PATIENCE REQUIRED

¶13. (SBU) With the exception of Pih, our interlocutors actively

support the opposition. Even so, their analysis was disheartening: the Brazilian economy cannot sustain growth above 3 percent without dealing with some very basic structural inefficiencies, public education in Brazil is a disaster that attracts little interest from any of the candidates (or the public), and "conditioned cash transfers" in fact are not conditioned but are programs by the federal, state and municipal governments to curry favor with poor voters. The word we heard most often in advising us how to engage with Brazil was "patience." END COMMENT.

¶14. (U) This cable has been cleared by PDAS Shapiro and coordinated with Embassy Brasilia.

MCMULLEN